Thabazimbi Local Municipality
Annual Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	Municipality
Mayoral committee	
Mayor	Cllr. P. A Mosito
	Cllr. S. G Matsietsa (Speaker)
Councillors	Cllr. B. N. Maguga (Member of MPAC)
	Cllr. M. L. Sikhwari (Ward Councillor and member of IPEDC)
	Cllr. D. R. Daniels (Ward Councillor and member of IPEDC)
	Cllr. S. A. Khumalo (Member of Finance Comittee)
	Cllr. D. A. Moatshe (Member of MPAC)
	Cllr. F. Loots (Member of MPAC)
	Cllr. S. G. Lerumo (Member of Finance committee)
	Cllr. R. C. Du Preez (Member of MPAC)
	Cllr. K. R. Mokwena (Executive Member and Chairperson of Infrastructure Planning and Economic Development)
	Cllr. P Strydom (Member of of Finance Committee)
	Cllr. M. Moselane (Ward Councillor and member of IPEDC)
	Cllr. J. M. Fisher (Member of community and social service committee)
	Cllr. M. E. Semadi (Chairperson of Finance Committee)
	Cllr. L. H. Joubert(Executive Committee Member and Chairperson of community and social service committee)
	Cllr. R. A. Ramogale (Chairperson of MPAC)
	Cllr. P. A. Scruton (Representative of District Council and Member of the Finance Comittee)
	Cllr. S. E. Sikwane (Representative of District Council)
	Cllr. R. C. Du Preez (Member of MPAC)
	Cllr. T. Mkansi (Chief Whip)
	Cllr. T. Molefe (Member of Infrastructure planning & economic Dev. committee
	Cllr. S. I. Manala (Member of social committee)
Grading of local authority	Low Capacity Municipality (LIM361)
Acting Chief Finance Officer (CFO)	Mr. S. Chaitezvi
Accounting Officer	Advocate Jan Letsepe Thubakgale
Registered office	7 Rietbok Street Thabazimbi 0380
Business address	Private bag X 530 Thabazimbi 0380
Bankers	ABSA Bank Limited
Auditors	Auditor General South Africa
Attorneys	Raphiri Mokgobu
Published	31 August 2016

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Financial Management Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 65 which have been prepared on the going concern basis,were approved on 31August 2016 and were signed on its behalf by:

Advocate Jan Letsepe Thubakgale
Accounting Officer

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2016.

Audit committee members and attendance

The audit committee consists of the members listed hereunder . During the current year four number of meetings were held.

Name of member	Number of meetings attended
Mphahlele LE (Chairperson)	4
Mokoena OP	4
Nevomdwe LT	4

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

Evaluation of annual financial statements

The audit committee has:
- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor General and the ;
- reviewed the Auditor General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices ;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor General of South Africa

The audit committee has not met with the Auditor General of South Africa to ensure that there are no unresolved issues.

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Chairperson of the Audit Committee

Date: ____________________

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is engaged in local service delivery to the surrounding community of Thabazimbi and operates principally in South Africa .

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 1 March 2016, the municipality was placed under Section 139 1B of the Constitution of the Republic of South Africa.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is aware of the matter arising from fixed assets which were attached on the 25th of August 2016 by the sherrif, the municipality is in the procees of compiling a list of all the assets that were attached and their values , a subsequent adjustment to this effect will be once the compilation procees is completed.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5.

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Advocate Jan Letsepe Thubakgale	South African

6. Corporate governance

General

The Municipality is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Municipality supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King III Report on Corporate Governance for South Africa 2002. The municipality does not have a Board, but instead they have an Audit Committee. The Audit Committee met 6 times in the year under review to monitor the municipality's compliance with the code.

The salient features of the municipality's adoption of the Code is outlined below:

Accounting Officer's Report

Audit committee

Mr L.E. Mphahlele was the chairperson of the audit committee. The audit committee met 4 times during the financial year to review matters neccessary to fulfill its role.

In terms of Section 166 of the Municipal Finance Management Act, Thabazimbi Local Municipality must appoint members of the Audit Committee. National Treasury policy requires that municipalities appoint members of the municipality's audit committees who are not councillors of the municipality.

Accounting Officer's Report

Internal audit

Mr D. Manong is the head of Internal Audit. This is in compliance with the Municipal Finance Management Act, 2003.

7. Bankers

The municipality banks primarily with ABSA Bank Limited.

8. Auditors

Auditor General South Africa.

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	7	2 289 539	3 092 301
Receivables from exchange transactions	8	253 276	3 740 118
Receivables from non-exchange transactions	45	1 464 154	723 500
VAT receivable	9	8 014 698	7 336 205
Consumer debtors	10	96 472 949	79 677 929
Cash and cash equivalents	11	3 659 382	3 324 282
		112 153 998	**97 894 335**
Non-Current Assets			
Biological assets that form part of an agricultural activity	3	760 592	879 600
Property, plant and equipment	4	858 802 154	1 011 785 288
Other financial assets	5	82 849	77 586
		859 645 595	**1 012 742 474**
Total Assets		**971 799 593**	**1 110 636 809**
Liabilities			
Current Liabilities			
Other financial liabilities	14	3 416 317	3 352 111
Finance lease obligation	12	367 361	1 059 118
Payables from exchange transactions	16	311 185 018	271 781 339
Consumer deposits	17	3 722 780	3 593 770
Unspent conditional grants and receipts	13	4 519 000	7 880 262
Provisions	15	18 878 002	15 610 806
		342 088 478	**303 277 406**
Non-Current Liabilities			
Other financial liabilities	14	1 996 970	2 059 452
Finance lease obligation	12	-	367 361
Employee benefit obligation	6	31 564 355	28 758 644
Provisions	15	26 922 263	22 743 646
		60 483 588	**53 929 103**
Total Liabilities		**402 572 066**	**357 206 509**
Net Assets		**569 227 527**	**753 430 300**
Accumulated surplus	46	569 227 524	753 430 294

* See Note 35

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	122 889 317	120 629 593
Rental of facilities and equipment	47	379 018	423 195
Agency services		3 177 570	3 218 198
Sale of PPE		300 675	777 026
Other income	22	3 268 649	3 943 472
Interest received - investment	26	20 574 104	11 851 961
Total revenue from exchange transactions		**150 589 333**	**140 843 445**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	57 605 373	22 556 963
Traffic Fines		1 519 200	1 035 119
Donations		22 340 351	1 182 730
Transfer revenue			
Government grants & subsidies	21	88 113 347	75 497 352
Total revenue from non-exchange transactions		**169 578 271**	**100 272 164**
Total revenue	18	**320 167 604**	**241 115 609**
Expenditure			
Employee related costs	24	(106 021 718)	(102 240 089)
Remuneration of councillors	25	(7 650 948)	(7 086 023)
Depreciation and amortisation	27	(54 082 946)	(43 797 035)
Impairment loss	48	(26 454 598)	(40 491 620)
Finance costs	28	(27 156 459)	(14 623 174)
Lease rentals on operating lease		(1 985 909)	875 296
Repairs and maintenance		(3 620 166)	(7 956 835)
Bulk purchases	30	(77 100 703)	(75 124 946)
General Expenses	23	(64 857 885)	(48 250 310)
Total expenditure		**(368 931 332)**	**(338 694 736)**
Operating deficit		**(48 763 728)**	**(97 579 127)**
Deficit for the year		**(48 763 728)**	**(97 579 127)**

* See Note 35

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2014	**851 009 421**	**851 009 421**
Changes in net assets		
Prior period correction (Agregate ammounts)	(97 579 127)	(97 579 127)
Total changes	(97 579 127)	(97 579 127)
Restated* Balance at 01 July 2015	**617 991 252**	**617 991 252**
Changes in net assets		
Surplus for the year	(48 763 728)	(48 763 728)
Total changes	(48 763 728)	(48 763 728)
Balance at 30 June 2016	**569 227 524**	**569 227 524**

* See Note 35

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Service charges and rates		141 662 161	112 814 328
Grants		67 213 347	94 003 795
Interest income		57 446	-
		208 932 954	206 818 123
Payments			
Employee costs		(107 174 496)	(110 395 527)
Suppliers		(73 207 781)	(81 795 328)
Finance costs		(27 156 459)	(14 623 174)
		(207 538 736)	(206 814 029)
Net cash flows from operating activities	31	**1 394 218**	**4 094**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	-	(1 365 000)
Proceeds from sale of property, plant and equipment	4	-	450 000
Proceeds from sale of financial assets		-	3 058 000
Net cash flows from investing activities		**-**	**2 143 292**
Cash flows from financing activities			
Finance lease payments		(1 059 118)	(1 125 000)
Net increase/(decrease) in cash and cash equivalents		**335 100**	**1 022 386**
Cash and cash equivalents at the beginning of the year		3 324 282	2 301 896
Cash and cash equivalents at the end of the year	11	**3 659 382**	**3 324 282**

* See Note 35

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference - Note 44
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	188 996 000	(63 072 000)	**125 924 000**	122 889 317	**(3 034 683)**	1
Traffic Fines	904 000	-	**904 000**	-	**(904 000)**	7
Rental of facilities and equipment	1 219 000	-	**1 219 000**	379 018	**(839 982)**	
Agency services	2 653 000	(500 000)	**2 153 000**	3 177 570	**1 024 570**	4
Licences and permits	3 149 000	(500 000)	**2 649 000**	-	**(2 649 000)**	3
Miscellaneous other revenue	9 305 000	-	**9 305 000**	300 675	**(9 004 325)**	
Other income - (rollup)	-	-	**-**	3 268 649	**3 268 649**	
Interest received - investment	6 250 000	-	**6 250 000**	20 574 104	**14 324 104**	5
Total revenue from exchange transactions	**212 476 000**	**(64 072 000)**	**148 404 000**	**150 589 333**	**2 185 333**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	28 392 000	5 587 000	**33 979 000**	57 605 373	**23 626 373**	2
Licences or Permits (Non-exchange)	-	-	**-**	1 519 200	**1 519 200**	
Other taxation revenue 2	-	-	**-**	22 340 351	**22 340 351**	
Transfer revenue						
Government grants & subsidies	64 841 000	-	**64 841 000**	88 113 347	**23 272 347**	6
Total revenue from non-exchange transactions	**93 233 000**	**5 587 000**	**98 820 000**	**169 578 271**	**70 758 271**	
Total revenue	**305 709 000**	**(58 485 000)**	**247 224 000**	**320 167 604**	**72 943 604**	
Expenditure						
Personnel	(100 461 000)	(6 718 000)	**(107 179 000)**	(106 021 718)	**1 157 282**	8
Remuneration of councillors	(8 398 000)	-	**(8 398 000)**	(7 650 948)	**747 052**	8
Depreciation and amortisation	(22 500 000)	(21 381 000)	**(43 881 000)**	(54 082 946)	**(10 201 946)**	
Impairment loss/ Reversal of impairments	(9 530 000)	(5 500 000)	**(15 030 000)**	(26 454 598)	**(11 424 598)**	10
Finance costs	(838 000)	-	**(838 000)**	(27 156 459)	**(26 318 459)**	11
Lease rentals on operating lease	-	-	**-**	(1 985 909)	**(1 985 909)**	
Repairs and maintenance	-	-	**-**	(3 620 166)	**(3 620 166)**	12
Bulk purchases	(69 908 000)	-	**(69 908 000)**	(77 100 703)	**(7 192 703)**	13
Contracted Services	(3 830 000)	-	**(3 830 000)**	-	**3 830 000**	14
General Expenses	(36 335 940)	-	**(36 335 940)**	(64 857 885)	**(28 521 945)**	15
Other (taken out of General expenses)	(52 920 000)	-	**(52 920 000)**	-	**52 920 000**	15
Total expenditure	**(304 720 940)**	**(33 599 000)**	**(338 319 940)**	**(368 931 332)**	**(30 611 392)**	
Surplus	**988 060**	**(92 084 000)**	**(91 095 940)**	**(48 763 728)**	**42 332 212**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference - Note 44
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**988 060**	**(92 084 000)**	**(91 095 940)**	**(48 763 728)**	**42 332 212**	
Reconciliation						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	1 780 000	-	**1 780 000**	2 289 539	**509 539**	
Receivables from exchange transactions	-	-	**-**	253 276	**253 276**	16
Receivables from non-exchange transactions	-	-	**-**	1 464 154	**1 464 154**	
VAT receivable	-	-	**-**	37 574 259	**37 574 259**	
Consumer debtors	146 351 000	(21 000 000)	**125 351 000**	96 472 949	**(28 878 051)**	18
Investments	250 000	-	**250 000**	-	**(250 000)**	
Cash and cash equivalents	1 709 000	(709 000)	**1 000 000**	3 659 382	**2 659 382**	19
	150 090 000	**(21 709 000)**	**128 381 000**	**141 713 559**	**13 332 559**	
Non-Current Assets						
Biological assets that form part of an agricultural activity	-	809 000	**809 000**	760 592	**(48 408)**	21
Investment property	-	249 000	**249 000**	-	**(249 000)**	
Property, plant and equipment	1 311 446 000	-	**1 311 446 000**	858 802 154	**(452 643 846)**	
Other financial assets	-	-	**-**	82 849	**82 849**	
	1 311 446 000	**1 058 000**	**1 312 504 000**	**859 645 595**	**(452 858 405)**	
Total Assets	**1 461 536 000**	**(20 651 000)**	**1 440 885 000**	**1 001 359 154**	**(439 525 846)**	
Liabilities						
Current Liabilities						
Other financial liabilities	-	2 115 000	**2 115 000**	3 416 317	**1 301 317**	
Finance lease obligation	-	-	**-**	367 361	**367 361**	
Payables from exchange transactions	-	34 500 000	**34 500 000**	311 185 018	**276 685 018**	23
VAT payable	-	-	**-**	29 559 561	**29 559 561**	
Consumer deposits	3 824 000	-	**3 824 000**	3 722 780	**(101 220)**	
Unspent conditional grants and receipts	-	-	**-**	4 519 000	**4 519 000**	
Provisions	47 529 000	-	**47 529 000**	17 145 436	**(30 383 564)**	
	51 353 000	**36 615 000**	**87 968 000**	**369 915 473**	**281 947 473**	
Non-Current Liabilities						
Other financial liabilities	-	5 255 587	**5 255 587**	1 996 970	**(3 258 617)**	
Finance lease obligation	4 783 000	(2 500 000)	**2 283 000**	-	**(2 283 000)**	
Employee benefit obligation	-	-	**-**	31 564 355	**31 564 355**	
Provisions	26 505 000	-	**26 505 000**	28 654 829	**2 149 829**	
	31 288 000	**2 755 587**	**34 043 587**	**62 216 154**	**28 172 567**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference - Note 44
Total Liabilities	**82 641 000**	**39 370 587**	**122 011 587**	**432 131 627**	**310 120 040**	
Net Assets	**1 378 895 000**	**(60 021 587)**	**1 318 873 413**	**569 227 527**	**(749 645 886)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	-	-	**-**	569 227 529	**569 227 529**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference - Note 44
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Grants	94 013 000	(29 172 000)	**64 841 000**	-	**(64 841 000)**	
Other receipts	204 796 000	(40 987 000)	**163 809 000**	-	**(163 809 000)**	
	298 809 000	**(70 159 000)**	**228 650 000**	**-**	**(228 650 000)**	
Net increase/(decrease) in cash and cash equivalents	298 809 000	(70 159 000)	**228 650 000**	-	**(228 650 000)**	
Cash and cash equivalents at the end of the year	**298 809 000**	**(70 159 000)**	**228 650 000**	**-**	**(228 650 000)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Biological assets that form part of an agricultural activity

The entity recognises a biological assets that form part of an agricultural activity or agricultural produce when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to a biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

1.5 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed and a detailed register is available for all the assets, during the year under review the useful life is summarised as follows:

Item	Average useful life
Plant and machinery	5-10 years
Furniture and fixtures	2 - 35 years
Motor vehicles	7 - 10 years
Office equipment	3-10 years
IT equipment	3 - 7 years
Infrastructure- Electricity	20-45 years
Infrastructure- Roads	15-80 years
Infrastructure- Water	15-80 years
Infrastructure- Sewarage	15-80 years
Storm Network	20-50 years
Bridges	50-100 years
Cemetries	15-100 years
Creches	15-100 years
Halls/centres	10-100 years
Libraries	15-100 years
Public ablution facilities	15-100 years
Public open spaces	15-100 years
Taxi ranks/parking/bus terminals	15-100 years
Staff housing	15-100 years
Municipal offices	5-100 years
Pay enquiry points	15-100 years
Stores	5-100 years
Testing centres	5-100 years
Workshops/depots/yards	5-100 years
Social buildings	10-100 years
Social housing	5-100 years
Landfill sites	15-80 years
Indoor sport facilities	15-100 years
Outdoor sport facilities	15-100 years
Heritage	

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

1.5 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

1.6 Intangible assets (continued)

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset’s net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Accounting Policies

1.8 Financial instruments (continued)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Accounting Policies

1.8 Financial instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
DBSA Loan	Financial asset measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Accounting Policies

1.8 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Accounting Policies

1.10 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.13 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

1.18 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. “Generally accepted accounting practice” has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

3. Biological assets that form part of an agricultural activity

	2016			2015		
	Cost / Valuation		Carrying value	Cost / Valuation		Carrying value
Other consumable biological assets	760 592	-	760 592	879 600	-	879 600

Reconciliation of biological assets that form part of an agricultural activity - 2016

	Opening balance	Fair Value Adjustment	Total
Other consumable biological assets	879 600	(119 008)	760 592

Reconciliation of biological assets that form part of an agricultural activity - 2015

	Opening balance	Total
Other consumable biological assets	879 600	879 600

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	58 276 792	-	58 276 792	58 276 792	-	58 276 792
Sport and Recreational Facilities	55 910 015	(30 254 729)	25 655 286	55 910 015	(28 019 744)	27 890 271
Plant and machinery	1 033 808	(834 843)	198 965	1 033 808	(537 706)	496 102
Furniture and fixtures	2 400 321	(1 273 782)	1 126 539	2 596 984	(1 113 156)	1 483 828
Motor vehicles	6 350 607	(2 411 981)	3 938 626	6 561 024	(2 762 683)	3 798 341
Office equipment	5 111 469	(4 133 874)	977 595	5 205 494	(2 923 490)	2 282 004
Solid Waste Facilities	824 162	(418 410)	405 752	824 162	(367 334)	456 828
Road Network	481 128 233	(199 739 195)	281 389 038	486 492 139	(182 324 621)	304 167 518
Community Facilities	83 714 055	(45 180 478)	38 533 577	83 714 055	(41 531 007)	42 183 048
Social Facilities	7 342 449	(4 619 644)	2 722 805	7 342 449	(4 282 724)	3 059 725
Servitudes	71 375 243	-	71 375 243	71 375 243	-	71 375 243
Operational Facilities	113 098 241	(63 218 572)	49 879 669	113 098 241	(57 636 903)	55 461 338
Work in progress	2 624 288	-	2 624 288	117 776 092	-	117 776 092
Security equipment	79 770	(75 781)	3 989	79 770	(75 782)	3 988
Storm Network	27 304 559	(16 966 610)	10 337 949	27 304 559	(15 837 652)	11 466 907
Electricity Network	82 158 171	(53 294 204)	28 863 967	82 158 171	(51 551 850)	30 606 321
Sanitation	199 277 099	(67 295 767)	131 981 332	189 292 104	(64 859 125)	124 432 979
Water network	216 708 196	(113 577 519)	103 130 677	216 708 196	(108 711 620)	107 996 576
Bridges	84 361 298	(37 842 274)	46 519 024	84 361 298	(36 748 572)	47 612 726
Housing	2 179 490	(1 323 477)	856 013	2 179 490	(1 227 739)	951 751
Emergency equipment	15 287	(10 259)	5 028	15 287	(8 377)	6 910
Total	**1 501 273 553**	**(642 471 399)**	**858 802 154**	**1 612 305 373**	**(600 520 085)**	**1 011 785 288**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Depreciation	Total
Land	58 276 792	-	58 276 792
Sports and Recreation	27 890 271	(2 234 985)	25 655 286
Plant and machinery	496 102	(148 569)	198 965
Furniture and fixtures	1 483 828	(309 194)	1 126 539
Motor vehicles	3 798 341	(2 061 432)	3 938 626
Office equipment	2 282 004	(1 314 387)	977 595
Solid Waste Facilities	456 828	(51 076)	405 752
Roads Network	304 167 518	(17 414 573)	281 389 038
Community Facilities	42 183 048	(3 649 471)	38 533 577
Social Facilities	3 059 725	(336 920)	2 722 805
Servitudes	71 375 243	-	71 375 243
Operational Facilities	55 461 338	(5 581 669)	49 879 669
Work in Progress	117 776 092	-	2 624 288
Security equipment	3 988	-	3 989
Electrical Network	30 606 321	(1 742 354)	28 863 967
Emergency Equipment	-	-	-
Storm Network	11 466 907	(1 128 958)	10 337 949
Sanitation Network	124 432 979	(2 436 642)	131 981 332
Water network	107 996 576	(4 865 899)	103 130 677
Bridges	47 612 726	(1 093 703)	46 519 024
Housing	951 751	(95 738)	856 013
Emergency Equipment	6 910	(1 881)	5 028
	1 011 785 288	**(44 467 451)**	**858 802 154**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Total
Land	58 276 792	-	-	-	58 276 792
Sports and Recreation Facilities	55 910 015	-	-	(2 234 985)	27 890 271
Plant and machinery	1 033 808	-	-	(164 969)	496 102
Furniture and fixtures	2 596 984	-	-	(288 524)	1 483 828
Motor vehicles	6 561 024	-	(19 295 341)	(5 688 698)	3 798 341
Office equipment	5 205 494	-	(3 489 473)	(1 700 501)	2 282 004
Solid Waste Facilities	824 162	-	-	(51 076)	456 828
Road Infrastructure	486 492 139	5 363 906	-	(17 414 573)	304 167 518
Community Assets	83 714 055	-	-	(3 649 471)	42 183 048
Social Facilities	7 342 449	-	-	(336 920)	3 059 725
Servitudes	71 375 243	-	-	-	71 375 243
Operational Facilities	113 098 241	-	-	(5 581 669)	55 461 338
Work in Progress	117 776 092	-	-	-	117 776 092
Security equipment	79 770	-	-	(10 104)	3 988
Electrical Network	82 158 171	-	-	(1 742 354)	30 606 321
Water Network	216 708 196	-	-	(4 287 275)	107 996 576
Sanitation	189 292 104	-	-	(1 863 115)	124 432 979
Storm water network	27 304 559	-	-	(1 128 958)	11 466 907
Bridges	84 361 298	-	-	(1 093 703)	47 612 726
Housing	2 179 490	-	-	(95 738)	951 751
Emergency Equipment	15 287	-	-	1 881	6 910
	1 612 305 373	**5 363 906**	**(22 784 814)**	**(47 330 752)**	**1 011 785 288**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Other financial assets

	2016	2015
At amortised cost		
Sanlam Investment: Market Investment	82 849	77 586
Non-current assets		
At amortised cost	82 849	77 586

6. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

	2016	2015
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(28 758 644)	(25 135 346)
Present value of the defined benefit obligation-partly or wholly funded	1 789 467	(1 584 472)
Fair value of plan assets	(1 394 088)	97 822
Fair value of reimbursement rights	(2 643 852)	(2 353 848)
Other [provide details]	-	217 200
	(31 007 117)	**(28 758 644)**

Changes in the present value of the defined benefit contribution are as follows:

	2016	2015
Opening balance	26 530 492	22 907 194
Net expense recognised in the statement of financial performance	3 039 231	3 623 298
	29 569 723	**26 530 492**

Figures in Rand	2016	2015

6. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	1 789 467	1 584 472
Interest cost	2 643 852	2 353 848
Actuarial (gains) losses	(1 394 088)	(97 822)
Expected return on plan assets	-	(217 200)
	3 039 231	**3 623 298**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,26 %	9,23 %
Medical cost trend rates	8,32 %	8,27 %
Future changes in maximum state healthcare benefits	0,87 %	0,89 %

Key demographic assumptions used at the reporting date.

Average retiremnt age:	63
Continuation of membership at retirement:	95%
Proportion assumed married at retirement:	95%
Proportion of eligible current non-member employees joining the scheme by retirement:	30%
Mortality during employment:	SA 85-90
Post retiment:	PA(90)-1]

7. Inventories

Water	159 919	143 108
Stock on hand	2 129 620	2 949 193
	2 289 539	**3 092 301**

8. Receivables from exchange transactions

Other receivables	253 276	3 740 118

9. VAT receivable

VAT	8 014 698	7 336 205

VAT is accounted for on an accrual basis but paid on cash basis to the South African Revenue Services.

10. Consumer debtors

Gross balances		
Rates	63 946 460	32 869 896
Electricity	11 329 957	17 075 549
Water	87 403 700	74 933 801
Sewerage	44 364 641	38 924 159
Refuse	28 310 975	24 726 557
Other	-	3 576 152
	235 355 733	**192 106 114**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

10. Consumer debtors (continued)

Less: Allowance for impairment		
Rates	(44 708 319)	(17 753 782)
Electricity	(8 915 798)	(6 959 022)
Water	(40 568 330)	(46 875 462)
Sewerage	(27 207 384)	(19 607 153)
Refuse	(17 482 953)	(21 232 766)
	(138 882 784)	**(112 428 185)**

Net balance		
Rates	19 238 141	15 116 114
Electricity	2 414 159	10 116 527
Water	46 835 370	28 058 339
Sewerage	17 157 257	19 317 006
Refuse	10 828 022	3 493 791
Other	-	3 576 152
	96 472 949	**79 677 929**

Rates		
Current (0 -30 days)	2 800 366	1 764 033
31 - 60 days	1 125 509	779 136
61 - 90 days	1 294 235	1 712 124
91 - 120 days	1 234 234	567 635
121 - 365 days	5 812 453	3 529 330
> 365 days	34 091 082	6 763 856
	46 357 879	**15 116 114**

Electricity		
Current (0 -30 days)	2 587 862	1 918 660
31 - 60 days	832 898	833 147
61 - 90 days	386 440	346 365
91 - 120 days	318 976	308 659
121 - 365 days	222 436	203 090
> 365 days	6 758 931	6 506 606
	11 107 543	**10 116 527**

Water		
Current (0 -30 days)	1 950 507	4 668 177
31 - 60 days	1 086 930	698 063
61 - 90 days	982 107	667 051
91 - 120 days	764 039	517 352
121 - 365 days	659 637	16 116 448
> 365 days	43 328 224	5 391 248
	48 771 444	**28 058 339**

Sewerage		
Current (0 -30 days)	1 562 764	494 101
31 - 60 days	949 337	179 193
61 - 90 days	851 592	158 801
91 - 120 days	794 345	145 914
121 - 365 days	730 551	1 091 505
> 365 days	23 539 631	17 247 492
	28 428 220	**19 317 006**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

10. Consumer debtors (continued)

Refuse		
Current (0 -30 days)	888 210	1 350 629
31 - 60 days	542 335	449 276
61 - 90 days	460 051	427 211
91 - 120 days	439 337	416 880
121 - 365 days	426 953	329 597
> 365 days	15 430 484	520 198
	18 187 370	**3 493 791**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(112 428 185)	(75 905 837)
Contributions to allowance	(36 528 052)	(36 522 349)
	(148 956 237)	**(112 428 186)**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 805	442
Bank balances	3 657 577	3 323 840
	3 659 382	**3 324 282**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Bank Limited-Cheque Account# 1580000009	715 478	233 104	859 591	(6 357 861)	1 748 659	1 988 119
ABSA Bank Account # 165322	2 177 733	425 527	138 440	8 056 985	1 377 092	138 440
ABSA Fixed Deposit-Short Term Investment	82 849	182 729	173 618	82 849	182 729	171 739
Total	**2 976 060**	**841 360**	**1 171 649**	**1 781 973**	**3 308 480**	**2 298 298**

12. Finance lease obligation

Minimum lease payments due		
- within one year	367 362	1 059 118
- in second to fifth year inclusive	-	367 362
Present value of minimum lease payments	**367 362**	**1 426 480**

Present value of minimum lease payments due		
- within one year	-	1 059 118
- in second to fifth year inclusive	-	367 362
	-	**1 426 480**

Non-current liabilities	-	367 361
Current liabilities	367 361	1 059 118
	367 361	**1 426 479**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	-	7 880 262
Electrification Grant	4 519 000	-
	4 519 000	**7 880 262**

14. Other financial liabilities

At amortised cost		
DBSA Loans	5 413 464	5 411 563
Non-current liabilities		
At amortised cost	1 996 970	2 059 452
Current liabilities		
Designated at fair value	-	-
At amortised cost	3 416 317	3 352 111
	3 416 317	**3 352 111**

15. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Provision for landfill site	17 444 043	4 472 248	21 916 291
Long service awards	5 299 603	1 438 935	6 738 538
Provision for leave pay	12 604 424	52 842	12 551 582
Provision for Bonus	3 006 382	1 587 472	4 593 854
	38 354 452	**7 551 497**	**45 800 265**

Non-current liabilities	26 922 263	22 743 646
Current liabilities	18 878 002	15 610 806
	45 800 265	**38 354 452**

16. Payables from exchange transactions

Trade payables	264 358 369	237 766 972
Retentions witheld	6 983 435	8 476 439
Accrued expenses	4 978 083	-
Amounts received in advance	5 876 499	25 537 928
Other Creditors	28 988 632	-
	311 185 018	**271 781 339**

17. Consumer deposits

Water & lights	3 722 780	3 593 770

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

18. Revenue

Service charges	122 889 317	120 629 593
Rental of facilities and equipment	379 018	423 195
Agency services	3 177 570	3 218 198
Sale of PPE	300 675	777 026
Other income	3 268 649	3 943 472
Interest received - investment	20 574 104	11 851 961
Property rates	57 605 373	22 556 963
Donations	22 340 351	1 182 730
Government grants & subsidies	88 113 347	75 497 352
	318 648 404	**240 080 490**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	122 889 317	120 629 593
Rental of facilities and equipment	379 018	423 195
Agency services	3 177 570	3 218 198
Sale of PPE	300 675	777 026
Other income	3 268 649	3 943 472
Interest received	20 574 104	11 851 961
	150 589 333	**140 843 445**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	57 605 373	22 556 963
Donations	22 340 351	1 182 730
Transfer revenue		
Government grants & subsidies	88 113 347	75 497 352
	168 059 071	**99 237 045**

19. Property rates

Rates received

Residential	10 995 559	5 047 609
Commercial	43 232 942	7 208 859
State	84 686	55 966
Small holdings and farms	3 292 186	10 244 529
	57 605 373	**22 556 963**

Valuations

Residential	3 679 504 180	3 512 123 630
Commercial	862 662 300	839 441 700
State	54 677 400	73 102 000
Municipal	59 289 120	88 832 700
Small holdings and farms	7 775 554 800	7 426 677 100
Social & Vacant land	197 817 800	324 369 900
	12 629 505 600	**12 264 547 030**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

20. Service charges

Sale of electricity	62 774 579	49 150 639
Sale of water	30 527 589	36 894 473
Sewerage and sanitation charges	18 116 756	24 507 414
Refuse removal	11 470 393	10 077 067
	122 889 317	**120 629 593**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

21. Government grants and subsidies

Operating grants

Equitable share	60 064 000	60 733 000
Municipal Infrastructure Grant (MIG)	20 900 000	6 593 819
Financial Management Grant (FMG)	1 675 000	1 600 000
Municipal Systems Improvement Grant (MSIG)	930 000	934 000
EPWP Grant	2 735 000	1 486 000
Fire Subsidy	255 637	-
SETA Grant	22 710	100 533
Electrification Grant	1 531 000	4 050 000
	88 113 347	**75 497 352**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	7 880 262	4 196 000
Implementation of MIG through WDM	20 900 000	13 170 000
Conditions met - transferred to revenue	(20 900 000)	(7 466 111)
Transfer to National Treasury	(7 880 262)	(2 019 627)
	-	**7 880 262**

The grant was used to accelerate basic infrastructure backlogs for the benefit of the community. The revenue recognised met the conditions of the grant. (see note 13).

Thabazimbi Local Municipality appointed Waterberg District Municipality as an implementing agent on the Municipal Infrastructure Grant during the 2015/16 Financial year.The annual gazzetted allocation was R29 072 000 , the funds were transfered directly to Waterberg District Municipality , the municipality has recognized the revenue based on the ammount received to the municipality.

Financial Management Grant

Current-year receipts	1 675 000	1 600 000
Conditions met - transferred to revenue	(1 675 000)	(1 600 000)
	-	-

The grant was used to promote and support reforms in financial management through financial management internship and reform programmes..

Municipal Systems Improvement Program Grant

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-

The grant was used for strengthening administrative systems, financial systems support and improving municipal audit outcome.

EPWP Grant

Current-year receipts	2 735 000	1 486 000
Conditions met - transferred to revenue	(2 735 000)	(1 486 000)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

21. Government grants and subsidies (continued)

The grant was used to expand employment creation afforts as a national priority through the use of labour intensive delivery methods within the municipality.

Electrification Grant

Balance unspent at beginning of year	4 050 000	-
Current-year receipts	2 000 000	4 050 000
Conditions met - transferred to revenue	(1 531 000)	-
	4 519 000	**4 050 000**

The grant was used for conversion of meters to smart metres.

SETA grant

Current-year receipts	22 710	100 533
Conditions met - transferred to revenue	(22 710)	(100 533)
	-	**-**

The grant has been utilised for training.

Fire Subsidy

Current-year receipts	255 637	-
Conditions met - transferred to revenue	(255 637)	-
	-	**-**

22. Other income

Meter Fees	120 858	2 167 940
Tender Fees	31 360	37 697
Fees - Graves	242 663	243 507
Fines	1 277	219
Clearence certificate	3 281	4 731
Fees - Plans	189 026	181 166
Connection Fees	218 379	119 886
Sale - Photocopies	501	1 366
Fire Services - Fees	782 688	678 102
Sales - Refuse Bags	-	52
Profit on disposal of assets	249 533	-
Database	14 173	17 336
Fees - Hawkers	2 649	12 061
Miscelleneous income accounts	3 851	4 579
Telephone and Fax	223 813	248 744
Surpluses	1 060	9 436
Registration and subscription Fees	84 143	126 785
Advertsing Income	99 394	-
Bulk Contributions	1 000 000	89 865
	3 268 649	**3 943 472**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

23. General expenses

Advertising	73 690	94 043
Auditors remuneration	4 692 361	2 271 080
Bank charges	479 988	502 882
Cleaning	84 149	1 185 469
Commission paid	-	58 024
Consulting and professional fees	11 745 269	11 003 711
Debt collection	-	1 275 910
Electricity Vending	-	216 923
Entertainment	65 543	180 376
Hire	42 541	-
Insurance	1 056 548	1 172 851
Community projects expenditure	29 712 195	13 591 832
Donations allowed	-	2 045
Motor vehicle expenses	1 280 986	3 006 253
Postage and courier	168 366	342 876
Printing and stationery	736 312	1 017 516
Protective clothing	27 241	131 888
Security	378 092	3 630 994
Health and safety expenses	-	11 682
Subscription	2 228 655	1 079 807
Telephone and fax	1 744 470	1 583 459
Training Fees	332 072	370 610
Travel - local	1 760 804	1 988 783
Title deed search fees	-	117 040
Sewerage and waste disposal	75 879	44 833
Refuse	21 153	266 318
Utilities - Other	119	-
Stock losses	1 372	219 555
Landfill site	4 521 647	318 072
Cross subsidy	3 493 937	2 249 479
Loss on Fair Value of Biological Assets	119 008	-
Game expenses	12 500	18 114
Promulgation of By Laws	2 988	297 885
	64 857 885	**48 250 310**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

24. Employee related costs

Basic	62 960 752	61 285 078
Bonus	4 559 247	4 294 529
Medical aid - company contributions	4 194 173	3 948 655
UIF	540 431	551 088
SDL	810 802	947 430
Leave pay provision charge	861 274	3 333 037
Pension Fund	11 388 671	15 168 433
Travel and Cellphone allowances	6 948 525	6 673 804
Overtime payments	6 799 079	7 108 651
Long-service awards	4 244 646	-
13th Cheques	1 587 472	(2 242 314)
Car allowance	-	189 953
Housing benefits and allowances	106 860	80 612
Provident fund	917 609	869 085
Operations Allowance	72 000	72 000
Industrial council	30 177	28 682
Vesting benefits	-	(68 634)
	106 021 718	**102 240 089**

Remuneration of Municipal Manager

Annual Remuneration	1 545 224	1 025 053
Car Allowance	270 000	180 000
Cell Phone Allowance	10 800	-
Contributions to UIF, Medical and Pension Funds	-	11 691
	1 826 024	**1 216 744**

Remuneration of Acting Chief Finance Officer

Annual Remuneration	794 759	895 240
Car Allowance	236 766	150 450
Contributions to UIF, Medical and Pension Funds	-	10 803
Cell Phone Allowance	7 200	-
	1 038 725	**1 056 493**

Remuneration of Technical Services Manager

Annual Remuneration	963 593	1 166 421
Car Allowance	234 582	189 360
Contributions to UIF, Medical and Pension Funds	-	13 165
Cellphone Alowance	7 200	-
	1 205 375	**1 368 946**

Remuneration of Corporate Services Manager

Annual Remuneration	753 398	795 733
Car Allowance	161 162	120 000
Performance Bonuses	59 142	-
Contributions to Medical and Pension Funds	9 009	11 384
Cellphone Allowance	7 200	-
	989 911	**927 117**

Remuneration of Community and Social Services Manager

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

24. Employee related costs (continued)

Annual Remuneration	506 736	532 763
Car Allowance	54 000	54 000
Cellphone Allowance	7 200	-
Contributions to Medical and Pension Funds	338	5 782
	568 275	**592 545**

Remuneration of Planning and Development Manager

Annual Remuneration	792 525	792 695
Car Allowance	162 219	156 000
Contributions to, Medical and Pension Funds	-	8 584
Cellphone Allowance	7 200	-
	961 945	**957 279**

25. Remuneration of councillors

Councillors	7 650 948	7 086 023

26. Investment revenue

Interest revenue

Bank	57 446	408 648
Interest received - Consumer debtors	20 516 658	11 443 313
	20 574 104	**11 851 961**

27. Depreciation and amortisation

Property, plant and equipment	54 082 946	43 797 035

28. Finance costs

Finance cost	27 156 459	14 623 174

29. Auditors' remuneration

Fees	4 692 361	2 271 080

30. Bulk purchases

Electricity	60 366 893	56 917 274
Water	16 733 810	18 207 672
	77 100 703	**75 124 946**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

31. Cash generated from operations

Deficit	(48 763 728)	(97 579 127)
Adjustments for:		
Depreciation and amortisation	54 082 946	43 797 035
Impairment deficit	26 454 598	40 491 620
Movements in operating lease assets and accruals	-	1 209 761
Movements in retirement benefit assets and liabilities	2 805 711	-
Movements in provisions	7 445 813	2 320 370
Increase in financial assets	32 405 132	3 058 292
Other losses in asset recognition	(69 903 364)	(41 374 179)
Losses recognised directly in net assets	(6 931 289)	9 028 806
Changes in working capital:		
Inventories	802 763	(447 486)
Consumer debtors	(19 931 928)	(9 472 761)
Other receivables from non-exchange transactions	(740 654)	6 663 475
Other non cash items	(20 158 021)	125 001
Other asset	(32 476 661)	10 169 811
Payables from exchange transactions	36 329 216	58 032 778
VAT	(678 493)	3 151 650
Unspent conditional grants and receipts	(3 361 262)	3 684 262
Consumer deposits	129 010	92 446
Increase in other financial assets	(3 305 315)	563 251
Other financial liability	(471 250)	-
Other liability	47 660 994	(33 510 911)
	1 394 218	**4 094**

32. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Rental of photo copier machines	2 517 658	3 532 136
• A total intergrated ICT Hardware, Software and Network support	871 966	7 994 515
• Preparation of key Financial Controls and Annual Financial Statements.	1 257 549	2 675 232
• Electricity demand management and energy effiecency	3 997 195	-
	8 644 368	**14 201 883**

Total capital commitments		
Already contracted for but not provided for	8 644 368	14 201 883

Authorised operational expenditure

Total commitments

Total commitments		
Authorised capital expenditure	8 644 368	14 201 883

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

33. Contingencies

1. Solomon Nkiwe Ramane and Paul Ramane are claiming against the municipality for payment in the amount of R 1 464 199, being an amount owing to the Plaintiff by the Defendant in respect of professional consultancy and advisory services rendered by the Plaintiff to the Defendant for the period March 2014 to March 2015, which amount is now due and payable to the Plaintiff. Despite demand, the Defendant , refuses to pay the amount claimed..

2. On or about 25 April 2014at Thabazimbi Road - at the krokodilrivier, damage occurred to Sunel Eloff vehicle ,due to the Plantiff's vehicle colliding with a pot hole that was situated in the road that falls under the Defendant's area of jurisdiction and maintenance. At all material times hereto, the plainti'ss vehicle was driven by the Plaintiff. The collision as aforesaid was caused solely as a result of the negligence of the Defendant's employees, who were at all relevant times hereto employed by the Defendant and acted, alternatively failed to act within the course and scope of their employment with the Defendant. The Claim is estimated at R12 634,21

3.Litigation is in proccess against municipality relating to the municipality failure to pay the amount of R 200 520 which is overdue and payable in respect of the equipment hired and delivered to the defendant by Blue Sands Trading. A demand letter was forwarded to the defendant, the defendant notwthstanding the damand, the defendant has refused to pay the amount of R 200 520. The Plaintiff waves the amount of R520 in order to place the matter within the jurisdiction of the Honorable Court.

4.Litigation is in the process against the municipality due to the fact that on or about the 11 and 12th October 2010 , the Municipality entered into a written contract with Immorial Building Construction and Mosiwa Building in terms of which the municipalty awarded the plaintiff a tender to attend to the construction of the road against payment of the sum of R5 203 662,24, the Plaintiff pursuant to the agreement aforesaid, the plaintiff duly proceeded to construct and finalized the construction of the road in June 2014, the Defenant has since paid the Plaintiff the sum of R4 000 000 of which the last payment was effect in March 2015, to date the balance of R 1 203 662,24 is still outstanding the balance of which the defenant has refused to pay to the plaintiff despite demand.The Estimated contigent liability is R1 203 662,24

5 Litigation is in the process against the municipality due to the fact that on or about 25 July 2014 near Warmbadveg Road, Thabazimbi the defendant's employees caused damage to the plaintiff's cable (Telkom SOC), the aforementioned employees were acting within the course and scope of their employment.The estimated cost is estimated to be R64 604,26

6. Litigation is in the process against the municipality relating to Polokwane Surfacing which had delivered the supplies and duly completed the work during April 2014 as set out in the Progress Payment Certificate dated 22 April 2014, and of which the defendant was provided with a tax invoice dated 26 May 2014 in the amount of R 2 910 628,43, as a result of the defendant is indebted to the plaintiff and the plaintiff has given the defendant notice of intended legal proceedings having been given on 30th September 2014.

7.Litigation is in the proccess against the municipality relating to service provider Hendrik Johanness Badenhorst who institutes action against the Defendant for which a claim of payment of the amount of R 2 300 000, which the Defendant has negleted and or refuses to pay the Plaintiff.

Figures in Rand	2016	2015

34. Related parties

Relationships		
Government Department	Department of Trasport	
Autonomous Association of Municipalities	SALGA	

Related party balances

Related party transactions

	2016	2015
Commisioned Earned		
Department of Transport	1 540 405	3 348 457
Liability owed to Department of Transport		
Department of Transport	28 064 290	24 629 670
SALGA	685 156	1 079 147
Section 56 and Section 57 Managers		
Municipal Manager	1 826 024	1 216 744
Chief Financial Officer	1 038 725	1 056 493
Technical Service Manager	1 205 375	1 368 947
Corporate Services Manager	989 911	927 117
Planning and Development Manager	961 945	957 279
Community and social services Manager	568 275	592 544

Notes to the Annual Financial Statements

Figures in Rand

35. Prior period errors

1.Property plant and Equipment was understated by R158 600 097 due to the fixed asset register not agreeing
2.An ammount of R570 202 was incorrectly allocted to provision for leave pay instead of leave expense
3.An ammount of R101 400 was incorrectly allocated to Landfill site expenses and has now been allocated to other income
4.The municipality understated Cash flows from operating activities by R 145,898,131 which was a result of incorrect calculation of Service charges and rates,Grants,Employee costs and Supliers
5.Correction of error in Cash flow from investing activities was a reslut of miscalculation of disposal of Property plant and Equipement., this had been previously overstated by R 6,772,374
6. Increase in Cash flow from financing activities is as a result of correct recognition of proceeds from sale of financial assets.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Increase in property, plant and equipment	158 600 097	-
Decrease in accumulated surplus	(158 600 097)	-
Increase in leave pay provision	570 202	-
Decrease in Employee cost	(570 202)	-
Increase in other income	101 400	-
Decrease in General expenses	(101 400)	-

Cash flow statement

Cash flow from operating activities	Previous Ammount	Restated Ammount
Service charges	149 450 497	97 191 445
Grants	76 185 506	94 003 795
Employee costs	(109 286 430)	110 395 527
Supliers	(124 298 239)	81 795 328
	(7 948 666)	**383 386 095**
Cash flow from investing activities		
Purchase of PPE	(14 712 733)	(1 365 000)
Proceeds from PPE	19 341 815	450 000
	4 629 082	**(915 000)**
Cash flow from financing activities		
Proceed from Financial Assets	(471 249)	3 058 000
Finance Lease payments	(18 756 850)	(125 000)
	(19 228 099)	**2 933 000**

36. Comparative figures

Certain comparative figures have been reclassified.

The Property Plant and Equipment has been reclassified in order to align the breakdown of each component with the asset register

Other payables was reclassified to provision for bonus.

Other receivables was reclassified into receivable from exchange and non exchange transactions.

Fees earned was reclassified into other income.

Notes to the Annual Financial Statements

Figures in Rand

36. Comparative figures (continued)

Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
Sport Faciilities	55 910 015	(55 910 015)	-
Buildings	204 781 178	(204 781 178)	-
Infrastructure - Roads	553 018 557	(553 018 557)	-
Electricity Network	152 301 695	(70 143 524)	82 158 171
Water Network	238 819 112	(32 598 202)	206 220 910
Sanitation Network	107 244 448	92 032 651	199 277 099
Other payables	3 006 382	(3 006 382)	-
Other receivables	4 463 619	(4 463 619)	-
Fees Earned	89 865	(89 865)	-
Total	**1 319 634 871**	**(831 978 691)**	**487 656 180**

37. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

38. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

39. Events after the reporting date

Attachment of movable assets by a Creditor.

- The Municipality was sued by one Fast Move Electrical ,for services provided during 2013/14 financial year which were unpaid amounting to R4.3m during 2014/15 financial year.The Municipality was unsuccessful in defending the matter before the courts and Fast move electrical obtained a writ of execution against the Municipality in 2016 July. Fast move electrical proceeded to attach the Municipal Assets which includes furniture and motor vehicles on 25 August 2016
- The Municipality is unable to estimate the value of assets attached as it is till busy a compiling a list of the assets, thereupon completion such an adjustment will be made on the Property Plant and Equipment.

40. Unauthorised expenditure

Opening Balance	349 167 648	318 351 713
Unauthorised expenditure	87 995 356	30 815 935
	437 163 004	**349 167 648**

Details of Unauthorised expenditure	DIsciplinary steps taken	Amount
MIG grant not used for its intended purpose during the month of February 2016	The Accounting Officer Advocate M.E Ntsoane was dismissed by council	

41. Fruitless and wasteful expenditure

Opening Balance	35 393 579	17 099 887
Fruitless and wasteful expenditure	26 796 010	18 293 692
	62 189 589	**35 393 579**

Notes to the Annual Financial Statements

Figures in Rand

42. Irregular expenditure

Opening balance	256 619 063	243 387 203
Add: Irregular Expenditure - current year	3 430 553	13 231 860
Add: Ammounts with no service level agreeements	1 247 398	-
	261 297 014	**256 619 063**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Incident	Expenditure items identified where the quotation process was not followed	2 784 323

43. Additional disclosure in terms of Municipal Finance Management Act

Material losses through distribution of water losses

Opening balance	(32 530)	44 423
Unit purchases during the year	3 535 525	3 627 187
Recorded Billing during the year in KL	(2 055 324)	(2 114 613)
	-	(32 530)
Water distribution losses (Kl)	**1 447 671**	**1 524 467**
% Loss	58%	42%
Average cost per Kl (R)	4.68	4.40
Distribution Losses (R)	R8 384 104	R6 706 511

Electricity losses

Unit purchased in KL	(71 677 897)	(50 977 682)
Recorded Billing during the year in KL	37 159 049	68 282 110
	(34 518 848)	**17 304 428**
% Loss	41%	25%
Average cost per Kl (R)	1.23	0.96
Distribution Losses (R)	R38 768 291	R16 663 101

PAYE and UIF

Opening balance	1 170 847	4 217 702
Current year subscription / fee	13 288 455	13 705 436
Amount paid - current year	(11 938 677)	(16 752 291)
	2 520 625	**1 170 847**

Pension and Medical Aid Deductions

Opening balance	1 933 795	4 908 670
Current year subscription / fee	16 423 847	22 829 593
Amount paid - current year	(16 317 958)	(25 804 468)
	2 039 684	**1 933 795**

Notes to the Annual Financial Statements

Figures in Rand

43. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	37 574 259	44 889 868
VAT payable	(29 559 561)	(37 553 663)
	8 014 698	**7 336 205**

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mosito PA	1 745	2 975	4 720
Moatshe DA	558	30	588
Sikwane CS	751	12 984	13 735
Molefe TD	465	1 678	2 143
Ramogale RA	318	20	338
Fischer JM	292	253	545
Lerumo SG	483	2 873	3 356
Khumalo SA	518	428	946
	5 130	**21 241**	**26 371**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Khumalo S.A	82 849	-	82 849
Mosito P.A	1 481	-	1 481
Moselane M.M	7 132	-	7 132
Semadi M.E	1 578	-	1 578
Scruton P.A	2 041	-	2 041
C.S. Sikwane	6 164	-	6 164
D.A Moatshe	1 338	-	1 338
S.G Lerumo	76	-	76
MD Tlhabadira	509	-	509
L.H Jourbert	1 362	-	1 362
PJ Strydom	7 135	-	7 135
	111 665	**-**	**111 665**

30 June 2016	Highest outstanding amount	Aging (in days)
Sikwane CS	12 984	120

30 June 2015	Highest outstanding amount	Aging (in days)
Khumalo S.A	82 849	-

Notes to the Annual Financial Statements

Figures in Rand

43. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Sole supplier - (1 Supplier)	228 115	-
Urgent matter - (5 Suppliers)	275 346	-
Where it is impractical or impossible to follow the official procurement processes. - (2 Suppliers)	72 230	-
	575 691	**-**

44. Budget differences

Differences between budget and actual amounts basis of preparation and presentation

Explanations for variances between budget to actuals:
Statement of Financial Performance
1. Service charges - The Municipality could not achieve in accordance with the initial revenue forecasts due to the poor state of metering for both electricity and water.
2. Property Rates - Increase in the tarriff by 300%
3. Licences and permits The licences and permits revenue went down due to competition poised on the selling of licence disks from the Post Office
4. Agency Fees -Agency services perfomed better than expected due to the increased capacity of learners who are able to be trained by the Municipality, hence the direct inprovement in revenue.
5. Interest received - Interest received in combined withth interest of receivables, this balance soared during the year responding the increase in debtors balance due to poor revenue colletion rate.
6. Government grants & Donations - Low spending rates in terms of Grants and the subsequent result of the District Municipality to implement MIG, the Donations increased as a result of a donation from Anglo to Smash Block
7. Fines -The Municipality could not achieve in accordance with the initial revenue forecasts due to the poor state of metering for both electricity and water.
8. Personnel -Personnel costs have increased due to the additional travel allowances and employee related costs incurred due to the use of vehicles and overtime.
9. Administration - Underspending due to funds shortage
10. Impairment loss/ Reversal of impairments - Impairment was due to an impairment assessment conducted during the year.
11. Finance Costt - Finance costs increased due to the long outstanding creditors and payables
12. Repairs and maintenance - Ageing of the distribution of Infrastructure
13. Bulk purchases - Bulk purchases have increased due to the increase in distribution losses for both electricty and water.
14. Contracted Services - Reduction of costs in line with cost containment requirements
15. General Expenses - General expenses savings are due to cash flow challenges and could not spend as budgeted due to low collections.

Statement of Financial Position
16. Receivables from exchange transactions - Low collection rate.
17. Receivables from non?exchange transactions - There was no split on exchange vs non?exchange
18. Consumer debtors - Low collection rate.
19. Cash and cash equivalents - Budget was not done in accordance with MFMA Circulars 58 and 59
20. Intangible assets - Error in budget calculation
21. Heritage assets - Incoperation of Mayoral Chain
22. Other financial liabilities - The short term portion of the loan was not accounted for in the budget in error.
23. Payables from exchange transactions - Increased creditors due to cash flow challenges
24. VAT payable - VAT increased due to the portion of creditors as indicated on Payables above. Cash flow challenges.

Notes to the Annual Financial Statements

Figures in Rand

45. Receivables from non-exchange transactions

Traffic Fines	1 464 154	723 500

46. Accumulated surplus

46. Accumulated surplus (continued)

Reserves within accumulated surplus - 2016

		Donations and public contributions	Other	Total
Opening balance	595 400 401	-	-	595 400 401
Donated/contributed property, plant and equipment	-	22 340 351	-	22 340 351
Movement	-	-	(48 513 228)	(48 513 228)
	-	**-**	**-**	**596 227 524**

47. Rental of facilities and equipment

Premises		
Premises	378 321	422 541
Facilities and equipment		
Rental of equipment	697	654
	379 018	**423 195**

48. Impairment of assets

Impairments		
Trade and other receivables	26 454 598	40 491 620

49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the who considered them and subsequently approved the deviation from the normal supply chain management regulations.The total deviation is R575 691

Thabazimbi Local Municipality
Appendix A

Schedule of external loans as at 30 June 2015

	Loan Number	Redeemable	Balance at 30 June 2015 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2016 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Loan Stock			-	-	-	-	-	-
Development Bank of South Africa								
Regorogile Road Brick Paving	101958/1		971 876	28 505	-	1 000 381	-	19 462
Streets and Stormwater	10719/101		3 359 157	-	270 148	3 089 009	-	55 373
Upgrading electric network	10916/103		295 047	-	58 563	236 484	-	5 534
Upgrading sewer purification works	10916/203		178 217	-	27 208	151 009	-	3 649
Resealing of streets	10916/303		129 719	-	25 627	104 092	-	2 432
Upgrading sewer purification works	13523/101		136 348	-	31 011	105 337	-	1 071
Electricity Lalf 15498	12945/101		341 199	-	87 188	254 011	-	26 789
			5 411 563	**28 505**	**499 745**	**4 940 323**	**-**	**114 310**
Total external loans								
Loan Stock			-	-	-	-	-	-
Development Bank of South Africa			5 411 563	28 505	499 745	4 940 323	-	114 310
			5 411 563	**28 505**	**499 745**	**4 940 323**	**-**	**114 310**

Thabazimbi Local Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld				
		Jul	Sep	Dec	Mar	Jun	Jul	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun
Financial Management Grant (FMG)	Thabazimbi Local Municipality	1 675 000	-	-	-	-	187 538	201 155	432 175	854 132	-	-	-	-	-	-
Equitable Share		20 827 000	14 061 000	12 249 000	-	-	20 827 000	14 061 000	12 249 000	-	-	-	-	-	-	-
Municipal Systems Improvement Programme Grant (MSIG)	Thabazimbi Local Municipality	930 000	-	-	-	-	21 581	421	-	907 997	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expanded Public Works Programme Integrated Grant (PWPG)	Thabazimbi Local Municipality	1 094 000	821 000	820 000	-	-	729 334	912 000	601 666	492 000	-	-	-	-	-	-
		24 526 000	14 882 000	13 069 000	-	-	21 765 453	15 174 576	13 282 841	2 254 129	-	-	-	-	-	-